

PUBLIC NOTICE

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445 12th STREET, S.W.
WASHINGTON, D.C. 20554

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Fax-On-Demand 202/418-2830

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Proposed Third Quarter 2004 Universal Service Contribution Factor

CC Docket No. 96-45

In this Public Notice, the Wireline Competition Bureau (Bureau) announces that the proposed universal service contribution factor for the third quarter of 2004 is .089 or 8.9 percent.¹

Rules for Calculating the Contribution Factor

Contributions to the federal universal service support mechanisms are determined using a quarterly contribution factor calculated by the Commission.² The Commission calculates the quarterly contribution factor based on the ratio of total projected quarterly costs of the universal service support mechanisms to contributors' total projected collected end-user interstate and international telecommunications revenues, net of projected contributions.³

USAC Projections of Demand and Administrative Expenses

Pursuant to section 54.709(a)(3) of the Commission's rules,⁴ the Universal Service Administrative Company (USAC) submitted projections of demand and administrative expenses for the third quarter of 2004.⁵

Pursuant to section 54.709(b) of the Commission's rules,⁶ in light of excess collections carried over from previous quarters, USAC submitted an alternative projection of demand for the schools and libraries support mechanism for the third quarter of 2004, which was \$200 million lower than its original

¹ See 47 C.F.R. § 54.709(a).

² See *id.*

³ See 47 C.F.R. § 54.709(a)(2).

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ See Federal Universal Service Support Mechanisms Fund Size Projections for the Third Quarter 2004, available at <<http://www.universalservice.org/overview/filings>> (filed April 30, 2004, corrected May 13, 2004) (*USAC Filing for Third Quarter 2004 Projections*). See also Federal Universal Service Support Mechanisms Fund Size Quarterly Contribution Base for the Third Quarter 2004, available at <<http://www.universalservice.org/overview/filings>> (filed June 1, 2004) (*USAC Filing for Third Quarter 2004 Contribution Base*).

⁶ See 47 C.F.R. § 54.709(b).

projection.⁷ As we did in the last quarter and consistent with section 54.709(b), we utilize USAC's alternative projection of demand. Accordingly, the projected demand and expenses are as follows:

(\$ millions)

Program	Projected Program Support	Admin. Expenses	Application Of Interest Income	Application of Periodic True-Ups	Total Program Collection
Schools and Libraries	349.283	13.217	(6.112)	10.670	367.058
Rural Health Care	12.643	0.808	(0.047)	0.419	13.823
High-Cost	942.299	3.588	(0.306)	(14.944)	930.637
Low Income	194.776	1.598	(0.147)	6.766	202.993
TOTAL	1499.001	19.211	(6.612)	2.911	1514.511

USAC Projections of Industry Revenues

USAC submitted projected collected end-user telecommunications revenues for July through September 2004 based on information contained in the Third Quarter 2004 Telecommunications Reporting Worksheet (FCC Form 499-Q).⁸ The amount is as follows:

Total Projected Collected Interstate and International End-User Telecommunications Revenues for Third Quarter 2004: \$ 18.707211 billion.

Adjusted Contribution Base

To determine the quarterly contribution base, we decrease the third quarter 2004 estimate of projected collected interstate and international end-user telecommunications revenues by the projected revenue requirement to account for circularity, and decrease the result by one percent to account for uncollectible contributions. Accordingly, the quarterly contribution base for the third quarter of 2004 is as follows:

Adjusted Quarterly Contribution Base for Universal Service Support Mechanism

Third Quarter 2004 Revenues - Projected Revenue Requirement - 1%
 (\$18.707211 billion - \$1.514511 billion) * 0.99

⁷ Because USAC historically has projected demand for the schools and libraries mechanism every quarter at \$562.5 million (\$2.25 billion divided by four quarters), even though actual disbursements may not reach that level in the upcoming quarter, this has resulted in a significant cash reserve. USAC has advised the Commission that \$200 million of funds that have been collected but not yet disbursed could be prudently applied to reduce program demand for the schools and libraries program for third quarter 2004 without affecting disbursement or commitment amounts for any of the universal service programs. See *USAC Filing for Third Quarter 2004 Contribution Base* at 5-6.

⁸ *Id.* at 4.

\$17.020773 billion.

Unadjusted Contribution Factor

Using the above-described adjusted contribution base and the total program collection requirement from the table above, the proposed unadjusted contribution factor for the third quarter of 2004 is as follows:

Contribution Factor for Universal Service Support Mechanisms

Total Program Collection / Adjusted Quarterly Contribution Base

\$1.514511 billion / \$17.020773 billion

0.088980

Unadjusted Circularity Factor

USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter. Accordingly, the proposed unadjusted circularity factor for the third quarter of 2004 is as follows:

Unadjusted Circularity Factor for Universal Service Support Mechanisms

1 - ((Third Quarter 2004 Revenues - Total Program Collection) / Third
Quarter 2004 Revenues)

1 - ((\$18.707211 - \$1.514511) / \$18.707211 billion)

.080959

Proposed Contribution Factor

The Commission has directed the Bureau to announce the contribution factor as a percentage rounded to the nearest tenth of one percent.⁹ Accordingly, the proposed contribution factor for the third quarter of 2004 is as follows:

.089

Proposed Circularity Factor

⁹ See Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Order and Second Order on Reconsideration, 18 FCC Rcd 4818, 4826 para. 22 (2003) (Second Order on Reconsideration).

The Commission also has directed the Bureau to account for contribution factor rounding when calculating the circularity discount factor.¹⁰ Accordingly, the proposed circularity factor for the third quarter of 2004 is as follows:

.081166¹¹

Conclusion

If the Commission takes no action regarding the projections of demand and administrative expenses and the proposed contribution factor within the 14-day period following release of this Public Notice, they shall be deemed approved by the Commission.¹² USAC shall use the contribution factor to calculate universal service contributions for the third quarter of 2004. USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter.¹³ USAC includes contribution obligations less the circularity discount in invoices sent to contributors. Contribution payments are due on the dates shown on the invoice. Contributors will pay interest for each day for which the payments are late. Contributors failing to pay contributions in a timely fashion may be subject to the enforcement provisions of the Communications Act of 1934, as amended, and any other applicable law. In addition, contributors may be billed by USAC for reasonable costs of collecting overdue contributions.¹⁴

We also emphasize that carriers may not mark up federal universal service line-item amounts above the contribution factor.¹⁵ Thus, carriers may not, during the third quarter of 2004, recover through a federal universal service line item an amount that exceeds the interstate telecommunications charges on a customer's bill times 8.9%.

For further information, contact Warren Firschein in the Telecommunications Access Policy Division, Wireline Competition Bureau, at (202) 418-7400, TTY (202) 418-0484.

¹⁰ *Id.*

¹¹ The proposed circularity discount factor = $1 + \{(\text{unadjusted circularity discount factor} - 1) * (\text{unadjusted contribution factor} / \text{proposed contribution factor})\}$. The proposed circularity discount factor is calculated in a spreadsheet program, which means that internal calculations are made with more than 15 decimal places.

¹² See 47 C.F.R. § 54.709(a)(3).

¹³ USAC will calculate each individual contributor's contribution in the following manner: (proposed contribution factor * contributor's projected collected revenues) – (proposed circularity discount factor * proposed contribution factor * contributor's proposed collected revenues).

¹⁴ See 47 C.F.R. § 54.713.

¹⁵ See 47 C.F.R. § 54.712.